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August 8, 2005

Supervisor Pat Call
Supervisor Paul Newman
Supervisor Richard Searle
Cochise County Board of Supervisors
1415 Melody Lane, Building G
Bisbee, AZ 85603

Re: McLain Water System Unpaid Taxes; Docket No. W-01646A-03-0601, et al

Dear Supervisors:

I'm writing to you today about the unpaid taxes owed by the McLain Water Systems to Cochise County. The combined water systems owned by Johnny McLain owe approximately \$500,000 to your County. I would like to ask you to vote to waive part, or all, of these monies.

Toward that end, I believe you would be aided by Arizona Revised Statute§ 42-18124 granting county boards of supervisors the authority to compromise taxes, interest and penalties:

"A. If it appears to the board of supervisors that any property is not worth the amount of taxes, interest, costs and penalties due or that the tax lien on the property would not sell for that amount, the board may compromise the taxes, interest and penalties with the owner."

I ask you to act pursuant to ARS§ 42-18124 in order to reduce these taxes, which in turn will lower the purchase price on the system and help prevent further harm to the ratepayers of the McLain system. As you know, there is an interested buyer for the system who has committed \$200,000 in earnest money and who has participated with the Commission in crafting a pathway toward a final purchase. However, the ultimate purchase price will no doubt be largely driven by the outstanding property and sales taxes owed by McLain. Therefore, any amount – large or small – that is forgiven by the County, will help encourage a sale and prevent ratepayers from being asked to foot the bill for the unpaid taxes in the form of an even heftier future rate increase request by the purchasing company.

Indeed, one of the most frustrating aspects of this case is that ratepayers have already paid the Commission-approved rates that McLain charged over the past two decades, which includes property taxes. It was McLain's obligation to pay these taxes and to seek regular rate adjustments to cover these and other operating expenses. But because of McLain's inaction to do

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so and because of his failure to pay the property taxes owed to the County, these ratepayers are saddled with this burden through no fault of their own. Now, these ratepayers, who have already suffered much, may face a considerable increase above the water systems' value so that McLain's delinquent tax bill can be paid, after a company purchases the water systems. I am hopeful that we can avoid this bad result.

Finally, let me thank each of you for your help in addressing this troubled water system these past few months. I received your letter requesting the hook-up moratorium and appreciate the alacrity with which it was issued and the thoughtfulness that went into writing it. I anticipate a vote on the moratorium issue closely on the heels of a Staff report and recommendation on the matter, which was filed on Friday.

I stand ready to work with you to find a permanent solution for the citizens who rely on this system. Thank you very much for your consideration of this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes", with a long horizontal flourish extending to the right.

Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Ernest Johnson
Steve Olea
Brian McNeil
Heather Murphy